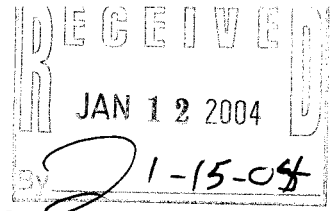


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Arizona Corporation Commission

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ARIZONA WATER COMPANY

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December 29, 2003

Commissioner Jeff Hatch-Miller  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007-2996

AZ CORP COMMISSION  
DOCUMENT CONTROL

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Re: Docket No. W-01445A-00-0962 (Phase 2 – Arsenic Cost Recovery)

Dear Commissioner Hatch-Miller:

The following responses are in answer to the questions posed in your November 25, 2003 letter to Robert W. Geake of Arizona Water Company concerning the United States Environmental Protection Agency's (the "EPA") selection of a well site in the Company's Rimrock water system for the construction of a full-scale demonstration project for arsenic treatment. In addition, the EPA selected a well site in the Company's Valley Vista (Sedona) water system for a similar treatment plant. These are the only two Arizona sites the EPA selected in the first phase of this program and only two of ten or eleven sites chosen nationwide. We are very pleased that our efforts led to these sites being selected by the EPA.

1. **Q. Will Arizona Water Company be responsible for any capital or operational and maintenance expenses (i.e., media replacement or regeneration costs; waste media or regeneration disposal costs) associated with the demonstration project?**

A. The Company will not be responsible for the major capital costs of the treatment plants themselves, but will be responsible for certain costs, such as foundations, buildings, and other incidental design components. In addition, the EPA will pay most of the operation and maintenance ("O&M") costs incurred during the term of the project. The EPA will not be paying our labor and incidental power costs, and we will be gathering water samples on a much more frequent basis than with the typical treatment plant.

2. **Q. What is the cost that Arizona Water Company anticipates will be passed through the recently approved Arsenic Cost Recovery Mechanism?**

A. The capital costs and O&M costs the Company incurs for these projects will not be known until their completion, which should be in the first or second quarter of 2005. Needless to say, the costs should be less than the costs incurred for treatment plants the Company constructs separate from these projects.

**3. Q. Will Arizona Water Company be able to acquire the arsenic treatment facility at a significant cost savings at the conclusion of the demonstration project?**

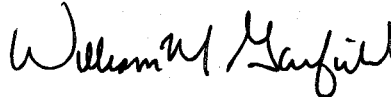
A. The projects are scheduled to last for a period of approximately 15 months, at which time we expect the EPA will offer to sell or convey ownership of the treatment plants to the Company at a cost that the Company expects will be less than the actual cost of construction.

On June 18, 2003, the Company filed direct testimony in the above-referenced docket, which informed the Commission that the Rimrock and Valley Vista water systems were selected by the EPA for participation in the arsenic demonstration plant program (see copy of testimony attached). These demonstration plants are extremely small in relation to the total production capacity of these water systems, amounting to 5% and 1% of the water production capacity of the Rimrock and Sedona systems, respectively.

I hope this information is helpful and responsive to your questions. Thank you for meeting with Robert Nicholson and me recently at your office. It was a pleasure to discuss general water utility issues and to get your perspectives as a Commissioner.

If you have any additional questions, please do not hesitate to call me.

Very truly yours,



William M. Garfield  
President

mcm  
Enclosure